

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Washtenaw County Road Commission</u>	County <u>Washtenaw</u>
Audit Date <u>December 31, 2005</u>	Opinion Date <u>February 10, 2006</u>	Date Accountant Report Submitted To State: <u>June 6, 2006</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48037</u>
Accountant Signature <i>Plante & Moran, PLLC</i>			

Washtenaw County Road Commission
(a component unit of Washtenaw County)

Financial Report
with Supplementary Information
December 31, 2005

Washtenaw County Road Commission

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Plante & Moran, PLLC

1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

Independent Auditor's Report

To the Board of Road Commissioners
Washtenaw County Road Commission

We have audited the accompanying basic financial statements of the Washtenaw County Road Commission (a component unit of Washtenaw County) as of and for the year ended December 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Washtenaw County Road Commission at December 31, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Washtenaw County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

February 10, 2006

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Washtenaw County Road Commission

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Washtenaw County Road Commission (the "Road Commission") provides an overview of the Road Commission's financial activities for the fiscal year ended December 31, 2005. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The governmental funds balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns present a short-term view of the Road Commission; they tell us how much is available for future spending. The total full accrual column is intended to present a longer-term view, and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns tell us how the taxpayers' money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

Supplementary information is also provided for additional information purposes.

Financial Analysis

The net assets of the Road Commission are summarized for the purpose of determining the overall fiscal position. As shown on the net asset chart below, the Road Commission's assets exceeded liabilities by \$160,620,140 at the end of the fiscal year.

When comparing this fiscal year to the previous year, net assets have increased by \$3,980,271 (see page 7). This is primarily attributed to the addition of infrastructure assets.

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

A comparative analysis of the Road Commission data is presented below.

Condensed Statement of Net Assets

	Governmental Activities	
	December 31	
	2005	2004
Assets		
Current and other assets	\$ 9,754,372	\$ 11,154,496
Capital assets	161,146,209	157,079,805
Total assets	170,900,581	168,234,301
Liabilities		
Long-term liabilities outstanding	5,661,193	6,351,057
Other liabilities	4,619,248	5,243,375
Total liabilities	10,280,441	11,594,432
Net Assets		
Invested in capital assets - Net of related debt	156,340,500	151,481,579
Unrestricted	4,279,640	5,158,290
Total net assets	<u>\$ 160,620,140</u>	<u>\$ 156,639,869</u>

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

Condensed Statement of Activities

	Governmental Activities	
	Year Ended December 31	
	2005	2004
Revenue		
State aid	\$ 17,125,673	\$ 17,588,119
Federal sources	5,345,482	7,310,624
Local and other sources	7,361,981	9,916,156
Total revenue	29,833,136	34,814,899
Expenses		
Maintenance	12,757,142	11,445,694
Administrative	2,257,265	2,090,773
Depreciation	9,887,757	1,820,757
Interest and other	950,701	882,847
Total expenses	25,852,865	16,240,071
Change in Net Assets	\$ 3,980,271	\$ 18,574,828

Road Fund Budgetary Highlights

The Road Commission amended its 2005 budget on three occasions during the year to reflect changes in the level of funding from Michigan Transportation Fund revenues and status changes in budgeted projects. The final budget for revenue was \$2.4 million lower than the original budget primarily due to deferral of the Textile/Tuttle Hill project and the Fosdick and Warner SAD projects. The actual 2005 revenues were approximately \$518,000 higher than the amended budget due to higher than expected Michigan Transportation Fund receipts as well as increased permit and subdivision activity. The actual 2005 expenditures were approximately \$150,000 higher than the amended budget due to higher utility costs as well as increased permit and subdivision expenditures.

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

Capital Assets

The Road Commission had \$161,146,209 in capital assets at the end of the fiscal year. The reason for the approximately \$4.07 million increase from the previous year is twofold: (1) purchases of new equipment, and (2) an increase in infrastructure costs. Infrastructure costs continue to be the largest asset class.

Capital Assets at Year End (Net of Depreciation) - Governmental Activities

	Governmental Activities	
	December 31	
	2005	2004
Land	\$ 17,388,549	\$ 16,668,153
Buildings and storage bins	9,564,640	9,875,541
Road equipment	2,512,183	2,628,496
Other equipment	590,004	674,136
Infrastructure	131,090,833	127,233,479
Totals	<u>\$ 161,146,209</u>	<u>\$ 157,079,805</u>

Economic Factors and Next Year's Budget

The general economic activity diminished during 2005, which resulted in Michigan Transportation Fund (MTF) revenues decreasing compared to 2004 receipts. The Road Commission has received contradictory reports regarding the MTF funding available in 2006 and has chosen to use a flat projection. The actual 2006 revenues and expenditures will be monitored on a quarterly basis in order to obtain a balanced budget.

Overall, the 2006 budget includes higher expenditures than 2005 primarily due to an increase in the expected level of reimbursable federal aid projects. Revenues are expected to be higher in 2006 primarily due to the increase in local government contributory projects as well as more federal aid projects.

Contacting the Road Commission Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Washtenaw County Road Commission, 555 N. Zeeb Road, Ann Arbor, MI 48103.

Washtenaw County Road Commission

Governmental Funds Balance Sheet/Statement of Net Assets December 31, 2005

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Net Assets
Assets					
Cash and investments (Note 3)	\$ 4,263,071	\$ 16,065	\$ 4,279,136	\$ -	\$ 4,279,136
Accounts receivable (Note 1)	3,652,360	-	3,652,360	-	3,652,360
Inventory	809,948	-	809,948	-	809,948
Restricted assets (Note 4)	794,291	-	794,291	-	794,291
Prepaid expenses and other	218,637	-	218,637	-	218,637
Capital assets - Net (Note 5):					
Assets being depreciated	-	-	-	143,757,660	143,757,660
Assets not being depreciated	-	-	-	17,388,549	17,388,549
Total assets	<u>\$ 9,738,307</u>	<u>\$ 16,065</u>	<u>\$ 9,754,372</u>	<u>161,146,209</u>	<u>170,900,581</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 480,822	\$ -	\$ 480,822	\$ -	\$ 480,822
Advances (Note 1)	2,441,655	-	2,441,655	-	2,441,655
Accrued liabilities	863,818	-	863,818	75,859	939,677
Deferred revenue (Note 1)	-	-	-	2,094	2,094
Bonds and contracts payable, due within one year (Note 7)	-	-	-	755,000	755,000
Bonds and contracts payable, due in more than one year (Note 7)	-	-	-	4,845,000	4,845,000
Other long-term liabilities (Note 6)	-	-	-	816,193	816,193
Total liabilities	3,786,295	-	3,786,295	6,494,146	10,280,441
Fund Balances					
Reserved:					
Inventory	809,948	-	809,948	(809,948)	-
Prepaid expenses	218,637	-	218,637	(218,637)	-
Unspent bond proceeds	794,291	-	794,291	(794,291)	-
Unreserved - Designated for:					
Employee retirement benefits	1,700,000	-	1,700,000	(1,700,000)	-
Capital improvements	1,023,577	-	1,023,577	(1,023,577)	-
Capital outlay	138,382	-	138,382	(138,382)	-
Insurance retention	972,177	-	972,177	(972,177)	-
Construction	295,000	-	295,000	(295,000)	-
Unreserved and undesignated	-	16,065	16,065	(16,065)	-
Total fund balances	<u>5,952,012</u>	<u>16,065</u>	<u>5,968,077</u>	<u>(5,968,077)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 9,738,307</u>	<u>\$ 16,065</u>	<u>\$ 9,754,372</u>		
Net Assets					
Investments in capital assets - Net of related debt				156,340,500	156,340,500
Unrestricted				4,279,640	4,279,640
Total net assets				<u>\$ 160,620,140</u>	<u>\$ 160,620,140</u>

Washtenaw County Road Commission

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended December 31, 2005

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
Revenue					
State aid - Michigan Transportation Fund	\$ 17,125,673	\$ -	\$ 17,125,673	\$ -	\$ 17,125,673
State trunkline maintenance	2,432,985	-	2,432,985	-	2,432,985
Federal and state sources	5,345,482	-	5,345,482	-	5,345,482
Revenue from local governments	3,293,859	-	3,293,859	(190,500)	3,103,359
Collections of special assessments	-	47,682	47,682	(47,682)	-
Gain on sale of asset	-	-	-	88,080	88,080
Interest, fees, and other revenue	1,709,798	27,759	1,737,557	-	1,737,557
Total revenue	29,907,797	75,441	29,983,238	(150,102)	29,833,136
Expenditures/Expenses					
Current:					
Primary construction/Heavy maintenance	11,508,271	-	11,508,271	(11,508,271)	-
Local construction/Heavy maintenance	1,396,663	-	1,396,663	(1,396,663)	-
Primary routine maintenance	5,542,513	-	5,542,513	-	5,542,513
Local routine maintenance	5,930,333	-	5,930,333	-	5,930,333
State maintenance	2,362,760	-	2,362,760	-	2,362,760
Equipment and capital outlay	961,147	-	961,147	(961,147)	-
Less equipment rental and other charged to other expenditures	(1,078,464)	-	(1,078,464)	-	(1,078,464)
Administrative	2,192,129	-	2,192,129	65,136	2,257,265
Other services	733,153	-	733,153	-	733,153
Depreciation expense	-	-	-	9,887,757	9,887,757
Debt service:					
Principal retirement	735,000	70,000	805,000	(805,000)	-
Interest and other charges	225,075	2,638	227,713	(10,165)	217,548
Total expenditures/expenses	30,508,580	72,638	30,581,218	(4,728,353)	25,852,865
Excess of Revenue Over (Under) Expenditures/ Expenses	(600,783)	2,803	(597,980)	4,578,251	3,980,271
Fund Balances/Net Assets - January 1, 2005	6,552,795	13,262	6,566,057	150,073,812	156,639,869
Fund Balances/Net Assets - December 31, 2005	\$ 5,952,012	\$ 16,065	\$ 5,968,077	\$ 154,652,063	\$ 160,620,140

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 1 - Significant Accounting Policies

The Road Commission of the County of Washtenaw, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in the County of Washtenaw, Michigan. The Road Commission's financial statements will be included in the basic financial statements of the County of Washtenaw, Michigan as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds, and have been separately stated in conjunction with the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 1 - Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Fund is the Road Commission's only major governmental fund. The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

The Subdivision Improvements Fund (a nonmajor governmental fund) is used to account for the construction and financing of public improvements provided in benefiting districts that are to be paid, at least in part, from an assessment against the benefited property.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Accounts Receivable - Accounts receivable are primarily amounts due from other units of government. The Road Commission has not recorded a provision for doubtful accounts for accounts receivable since it is the opinion of management that those receivables are collectible in full.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 1 - Significant Accounting Policies (Continued)

Advances and Deferred Revenue - Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of advances and deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Advances	\$ -	\$ 2,441,655

Inventory and Prepaid Items - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Machinery and equipment	5 to 20 years
Roads	5 to 30 years
Other infrastructure	12 to 50 years

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 1 - Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to financial statements.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 5,968,077
Capital assets used in governmental activities are not financial resources and are not reported in the funds	161,146,209
Special assessment receivables collected in excess of roll	(2,094)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(5,600,000)
Compensated absences and provision for workers' compensation uninsured losses are not reported in the funds	(816,193)
Accrued interest payable is not reported in the funds	<u>(75,859)</u>
Government-wide net assets	<u>\$ 160,620,140</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balances - Total governmental funds	\$ (597,980)
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	3,978,324
In the statement of activities, only the gain on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the asset sold	88,080
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	(47,682)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	805,000
Changes in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(65,136)
Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due	10,165
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	<u>(190,500)</u>
Change in net assets of governmental activities	<u>\$ 3,980,271</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 3 - Cash and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to custodial credit risk as follows:

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$5,576,207 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The book balance for these deposits has been reported on the governmental funds balance sheet/statement of net assets as cash and investments of \$4,279,136 and restricted assets of \$794,291.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Restricted Assets

Restricted assets in the Road Fund at December 31, 2005 consist of cash and investments in the amount of \$794,291. These assets, representing unspent bond proceeds, are restricted for construction.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated -				
Land and land improvements	\$ 16,668,153	\$ 720,396	\$ -	\$ 17,388,549
Capital assets being depreciated:				
Buildings and storage bins	12,779,219	2,855	-	12,782,074
Road equipment	12,341,223	862,226	1,094,651	12,108,798
Other equipment	1,788,871	68,474	-	1,857,345
Brine wells and gravel pits	136,386	-	-	136,386
Infrastructure	206,166,995	12,305,934	-	218,472,929
Subtotal	233,212,694	13,239,489	1,094,651	245,357,532
Less accumulated depreciation for:				
Buildings and storage bins	(2,903,678)	(313,756)	-	(3,217,434)
Road equipment	(9,712,727)	(972,815)	(1,088,927)	(9,596,615)
Other equipment	(1,114,735)	(152,606)	-	(1,267,341)
Brine wells and gravel pits	(136,386)	-	-	(136,386)
Infrastructure	(78,933,516)	(8,448,580)	-	(87,382,096)
Subtotal	(92,801,042)	(9,887,757)	(1,088,927)	(101,599,872)
Net capital assets being depreciated	140,411,652	3,351,732	5,724	143,757,660
Net capital assets	\$ 157,079,805	\$ 4,072,128	\$ 5,724	\$ 161,146,209

Note 6 - Risk Management and Other Long-term Liabilities

Insurance Programs

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for health care claims and participates in the Michigan County Road Commission Self-insurance Pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 6 - Risk Management and Other Long-term Liabilities (Continued)

The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

Compensated Absences

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, union employees earn sick and vacation time, while nonunion employees earn annual leave based on time of service with the Road Commission. The estimated compensated absence liability as of December 31, 2005 is \$816,193.

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of debt outstanding of the Road Commission as of December 31, 2005:

	Interest Rate	Maturing Through	Principal Outstanding
2000 Michigan Transportation Fund Notes, Series 2000	5.0%-6.75%	2009	\$ 380,000
2002 Michigan Transportation Fund Notes, Series 2002	3.75%-4.5%	2012	2,100,000
Washtenaw County Refunding bonds	2.0%-3.5%	2013	<u>3,120,000</u>
Total bonded and other contractual indebtedness			<u>\$ 5,600,000</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

The Washtenaw County Building Authority Refunding debt represents bonds that were sold on behalf of the Road Commission for the construction of Yard 2.

The 2000 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes will be used to fund improvements on county highways in Scio Township.

The 2002 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes will be used to fund improvements on subdivisions in Ypsilanti Township.

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended December 31, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1995 special assessment bonds	\$ 25,000	\$ -	\$ 25,000	\$ -	\$ -
1995 special assessment bonds	45,000	-	45,000	-	-
2000 Michigan Transportation Fund Notes, Series 2000	475,000	-	95,000	380,000	95,000
2002 Michigan Transportation Fund Notes, Series 2002	2,400,000	-	300,000	2,100,000	300,000
2004 Washtenaw County Refunding bonds	<u>3,460,000</u>	<u>-</u>	<u>340,000</u>	<u>3,120,000</u>	<u>360,000</u>
Total bonded and other contractual indebtedness	<u>\$ 6,405,000</u>	<u>\$ -</u>	<u>\$ 805,000</u>	<u>\$ 5,600,000</u>	<u>\$ 755,000</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of December 31, 2005, except liabilities for compensated absences, are as follows:

Fiscal Years Ending December 31	Principal	Interest	Total
2006	\$ 755,000	\$ 200,150	\$ 955,150
2007	775,000	174,878	949,878
2008	770,000	148,733	918,733
2009	780,000	121,715	901,715
2010	675,000	93,438	768,438
2011-2013	1,845,000	127,937	1,972,937
Total	<u>\$ 5,600,000</u>	<u>\$ 866,851</u>	<u>\$ 6,466,851</u>

Interest

Interest expense paid by the Road Commission for the year ended December 31, 2005 approximated \$228,000.

Note 8 - Stewardship, Compliance, and Accountability

The Road Commission is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- Budgets must be adopted for the Special Revenue Funds. The Road Fund and the Subdivision Improvements Fund are Special Revenue Funds.
- Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- The budgets must be amended when necessary.
- Public hearings must be held before budget adoptions.
- Expenditures cannot exceed budget appropriations.
- Expenditures must be authorized by a budget before being incurred.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 8 - Stewardship, Compliance, and Accountability (Continued)

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of Road Commissioners is included in the required supplementary information. A comparison of actual results of operations to the Subdivision Improvement Fund budget as adopted by the Board of Road Commissioners is available at the Road Commission offices for inspection.

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In November, the managing director of the Road Commission submits to the Board of County Road Commissioners a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain citizen comments.
3. During December, the budget is legally enacted by the passage of a resolution.
4. The managing director is authorized to transfer budgeted amounts between line items within an activity category, exclusive of certain exceptions, which require the approval of the Board of County Road Commissioners. These accepted items and any revisions that alter the total expenditures of any budgeted activity must be approved by the board.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Road Commission incurred expenditures that were in excess of amounts budgeted, as follows:

	Amended Budget	Actual
Local routine maintenance	\$ 5,922,385	\$ 5,930,333
State maintenance	2,313,000	2,362,760
Administrative	2,056,000	2,192,129
Other services	653,000	733,153

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 8 - Stewardship, Compliance, and Accountability (Continued)

The unfavorable variance for both the state maintenance and local routine maintenance was caused by higher than anticipated distributive costs. The unfavorable variance for administrative costs and other services was caused by higher utility costs and increased permit and subdivision expenditures.

Note 9 - Postemployment Benefits

The Road Commission provides health care benefits, dental benefits, and a death benefit to all full-time employees upon retirement, in accordance with labor contracts. Currently, 153 retirees and/or surviving spouses are eligible for health care and other benefits. The Road Commission includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The Road Commission purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care and other benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$905,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than at the time the health care expenses are paid. The pronouncement is effective for the year ending December 31, 2008.

Subsequent Event - In an effort to proactively address the reporting change discussed above, the Road Commission made a disbursement of \$1.7 million in February 2006 to the Municipal Employees' Retirement System's (MERS) Retiree Health Funding Vehicle.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Road Commission participates in the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers nearly all employees of the Road Commission. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 10 - Defined Benefit Pension Plan (Continued)

Funding Policy - The obligation to contribute to and maintain the MERS for these employees was established by resolution of the Road Commission Board.

Annual Pension Cost - For the year ended December 31, 2005, the Road Commission's annual pension cost of \$823,729 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 30 years.

Additional pension plan information is as follows:

	Fiscal Years Ended December 31		
	2003	2004	2005
Annual pension cost (APC)	\$ 610,255	\$ 633,502	\$ 823,729
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 22,566,839	\$ 23,848,237	\$ 25,129,965
Actuarial Accrued Liability (AAL) (entry age)	\$ 27,539,205	\$ 31,276,579	\$ 33,025,576
Underfunded AAL (UAAL)	\$ 4,972,366	\$ 7,428,342	\$ 7,895,611
Funded ratio	82%	76%	76%
Covered payroll	\$ 6,054,035	\$ 6,790,857	\$ 6,911,250
UAAL as a percentage of covered payroll	82%	109%	114%

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2005

Note 11 - Construction in Process

Estimated future contract cost obligations related to completion of Road Fund construction projects in process at December 31, 2005, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$300,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will not be material in amount.

Required Supplementary Information

Washtenaw County Road Commission

Required Supplementary Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Michigan Transportation Fund	\$ 17,000,000	\$ 17,000,000	\$ 17,125,673	\$ 125,673
State trunkline maintenance	2,000,000	2,313,000	2,432,985	119,985
Federal and state sources	6,185,000	5,341,000	5,345,482	4,482
Revenue from local governments	5,093,000	3,243,000	3,293,859	50,859
Interest, fees, and other revenue	<u>1,512,000</u>	<u>1,493,000</u>	<u>1,709,798</u>	<u>216,798</u>
Total revenue	31,790,000	29,390,000	29,907,797	517,797
Expenditures				
Current:				
Primary construction/heavy maintenance	11,646,660	11,556,798	11,508,271	48,527
Local construction/heavy maintenance	3,905,281	1,414,208	1,396,663	17,545
Primary routine maintenance	5,497,141	5,596,608	5,542,513	54,095
Local routine maintenance	6,018,918	5,922,385	5,930,333	(7,948)
State maintenance	2,000,000	2,313,000	2,362,760	(49,760)
Equipment and capital outlay - Net of depreciation credits	(288,000)	(114,000)	(117,317)	3,317
Administrative	2,027,000	2,056,000	2,192,129	(136,129)
Other services	588,000	653,000	733,153	(80,153)
Debt service:				
Principal retirement	735,000	735,000	735,000	-
Interest and other charges	<u>225,225</u>	<u>225,225</u>	<u>225,075</u>	<u>150</u>
Total expenditures	<u>32,355,225</u>	<u>30,358,224</u>	<u>30,508,580</u>	<u>(150,356)</u>
Excess of Expenditures Over Revenue	(565,225)	(968,224)	(600,783)	367,441
Fund Balance - January 1, 2005	<u>6,552,795</u>	<u>6,552,795</u>	<u>6,552,795</u>	-
Fund Balance - December 31, 2005	<u>\$ 5,987,570</u>	<u>\$ 5,584,571</u>	<u>\$ 5,952,012</u>	<u>\$ 367,441</u>

Other Supplementary Information

Washtenaw County Road Commission

Other Supplementary Information Analysis of Changes in Road Fund Balance Year Ended December 31, 2005

	Primary Road	Local Road	County Road Commission	Total
Revenue				
State aid - Michigan Transportation Fund	\$ 12,815,236	\$ 4,310,437	\$ -	\$ 17,125,673
State trunkline maintenance	-	-	2,432,985	2,432,985
Federal and state sources	5,345,482	-	-	5,345,482
Revenue from local governments	2,140,836	1,138,394	14,629	3,293,859
Interest, fees, and other revenue	455,694	10,618	1,243,486	1,709,798
Total revenue	20,757,248	5,459,449	3,691,100	29,907,797
Expenditures				
Current:				
Primary construction/heavy maintenance	11,508,271	-	-	11,508,271
Local construction/heavy maintenance	-	1,396,663	-	1,396,663
Primary routine maintenance	5,542,513	-	-	5,542,513
Local routine maintenance	-	5,816,997	113,336	5,930,333
State maintenance	52,902	-	2,309,858	2,362,760
Equipment and capital outlay - Net of depreciation credits	128,054	120,012	(365,383)	(117,317)
Administrative	1,540,423	651,706	-	2,192,129
Other services	-	-	733,153	733,153
Debt service:				
Principal retirement	95,000	300,000	340,000	735,000
Interest and other charges	24,625	102,975	97,475	225,075
Total expenditures	18,891,788	8,388,353	3,228,439	30,508,580
Excess of Revenue Over (Under) Expenditures	1,865,460	(2,928,904)	462,661	(600,783)
Other Financing Sources (Uses) - Operating transfers in (out)	(2,928,904)	2,928,904	-	-
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,063,444)	-	462,661	(600,783)
Fund Balance - January 1, 2005	6,540,959	-	11,836	6,552,795
Fund Balance - December 31, 2005	\$ 5,477,515	\$ -	\$ 474,497	\$ 5,952,012